

# *Office of the State Auditor*

## *Division of State Audit*

### North Dakota Department of Health Bismarck, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 301

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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April 7, 2008

The Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

Dr. Terry Dwelle, State Health Officer, North Dakota Department of Health

We are pleased to submit this audit of the North Dakota Department of Health for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Delan Hellman. Angela Sabot and Aaron Petrowitz were the staff auditors. Cindi Pedersen, CPA, CM, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-4743. We wish to express our appreciation to Dr. Dwelle and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Department of Health is dedicated to ensuring that North Dakota is a healthy place to live and that each person has an equal opportunity to enjoy good health. The Department of Health is committed to the promotion of healthy lifestyles, the protection and enhancement of health and the environment, and the provision of quality health-care services for the people of North Dakota.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the North Dakota Department of Health in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Other than our findings addressing "Noncompliance With Record Retention Laws" (page 15) and "Noncompliance With Retention Bonus Laws" (page 16), the North Dakota Department of Health was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing the "Fraud Risk Assessment/Control Activities" (page 11), we determined internal control was adequate.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

The North Dakota Department of Health has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 18 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Department of Health's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), WIC Net System, and Vital Receipts System are high-risk information technology systems critical to the North Dakota Department of Health.

# ***Audit Objectives, Scope, and Methodology***

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## *Audit Objectives*

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The objectives of this audit of the North Dakota Department of Health for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Department of Health's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Department of Health and are they in compliance with these laws?
3. Are there areas of the North Dakota Department of Health's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the North Dakota Department of Health is for the biennium ended June 30, 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Department of Health has operations in the following locations. Each location will be included in the audit scope:

- The central office located in the State Capitol building.
- The following divisions are at 2635 East Main - Bismarck:
  - Laboratory Services (Chemistry and Microbiology)
  - Medical Examiner
- The following divisions are at 918 East Divide - Bismarck:
  - Environmental Health Section Chief's Office
  - Division of Air Quality
  - Division of Municipal Facilities
  - Division of Waste Management
  - Division of Water Quality
  - Emergency Preparedness & Response Section

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Nonstatistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system. Given the complexity of the state's accounting system, significant evidence was obtained from ConnectND.
- Observed North Dakota Department of Health's processes and procedures.

In aggregate there were not any significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Discussion and Analysis***

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The accompanying financial statements have been prepared to present the North Dakota Department of Health's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2007, operations of the North Dakota Department of Health were primarily supported by federal funding. This is supplemented by appropriations from the state's general fund and fees credited to the agency's operating fund.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds. Other revenues during the audited period included tobacco settlement funds, as well as various license, permits, fines, and fees. These all remained fairly constant for the North Dakota Department of Health, increasing only slightly. Total revenues and transfers in were \$58,091,518 for the year ended June 30, 2007 as compared to \$53,497,192 for the year ended June 30, 2006.

Total expenditures for the North Dakota Department of Health were \$65,984,404 for the year ended June 30, 2007 as compared to \$58,774,661 for the prior year. All expenditures remained fairly constant.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

The \$7,558,019 excess of operating expense appropriations over actual expenditures was mainly due to reimbursement of vaccine purchases from Blue Cross Blue Shield and engineering fees for the Leaking Underground Storage Tank program being less than anticipated. The grants line item variance (\$53,224,766 appropriated compared to \$41,302,259 actual expenditures) is due to new grant projects that did not get started and on-going grant projects that did not get completed as expected during the biennium.

## *Financial Statements*

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### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$44,317,051	\$42,334,677
WIC/Medication Rebates	4,939,195	3,246,617
Air Pollution Construction Permits	1,535,617	1,548,572
Water Sample Analysis Fee	746,720	683,594
Other License, Permits, and Fees	729,737	705,672
Vital Records – Service Fees	586,360	481,543
Fines	429,250	85,553
Other Revenue	276,877	245,267
Transfer from Tobacco Settlement Fund	2,241,405	2,141,407
Other Transfers In	2,289,306	2,024,290
<b>Total Revenues and Other Sources</b>	<u>\$58,091,518</u>	<u>\$53,497,192</u>
<b><u>Expenditures and Other Uses:</u></b>		
Grants, Benefits and Claims	\$24,754,131	\$21,382,769
Salaries and Benefits	16,360,980	15,176,924
Food Supplies (WIC)	8,791,787	8,545,331
Fees – Professional Services	4,244,005	3,683,600
Medicine and Drugs / Lab Supplies	3,690,153	2,449,039
IT Services, Repairs, Equipment	2,272,844	2,403,211
Travel	968,845	936,014
Equipment and Furniture	677,508	712,629
Rent of Building Space	628,948	586,299
Other Expenses	2,835,021	2,415,049
Transfers Out	760,182	483,796
<b>Total Expenditures and Other Uses</b>	<u>\$65,984,404</u>	<u>\$58,774,661</u>

## STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 32,342,513	\$ 507,400	\$ 32,849,913	\$ 30,895,794	\$ 1,954,119
Operating Expenses	25,613,981	6,976,000	32,589,981	25,031,962	7,558,019
Capital Assets	1,514,469	100,000	1,614,469	1,407,539	206,930
Capital Asset Carryover		475,000	475,000	208,261	266,739
Grants	41,832,166	11,392,600	53,224,766	41,302,259	11,922,507
Tobacco Prevention and Control	8,685,995		8,685,995	8,506,729	179,266
WIC Food Payments	15,750,000	1,800,000	17,550,000	17,337,118	212,882
<b>Totals</b>	<u>\$125,739,124</u>	<u>\$21,251,000</u>	<u>\$146,990,124</u>	<u>\$124,689,662</u>	<u>\$22,300,462</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 13,468,904		\$ 13,468,904	\$ 13,247,492	\$ 221,412
Other Funds	112,270,220	\$21,251,000	133,521,220	111,442,170	22,079,050
<b>Totals</b>	<u>\$125,739,124</u>	<u>\$21,251,000</u>	<u>\$146,990,124</u>	<u>\$124,689,662</u>	<u>\$22,300,462</u>

### Appropriation Adjustments:

A transfer of \$700,000 from the Operating Expenses line item to the Grants line item was approved by the Emergency Commission. This transfer was made to allow the North Dakota Health Department to grant money to a rural water district to oversee the design and construction of the Arsenic Trioxide Project.

A transfer of \$300,000 from the Grants line item to the Salaries and Benefits line item was approved by the Emergency Commission. This transfer was made to allow the North Dakota Health Department to hire four temporary employees to work on the Center for Disease Control and Health Resources Services Administration Bioterrorism Grants.

The increase in the Capital Asset Carryover line (\$475,000) was authorized by section 54-44.1-11 of the NDCC that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

All other changes to appropriation authority were the result of the Health Department receiving Emergency Commission permission to receive and expend additional available federal funds.

**Expenditures Without Appropriations Of Specific Amounts:**

The Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$2,250 of expenditures for this biennium).

The Organ/Tissue Transplant Fund has a continuing appropriation authorized by NDCC section 23-01-05.1 (\$12,940 of expenditures for this biennium).

The Quality Restoration Fund has a continuing appropriation authorized by NDCC section 23-31-02 (\$53,309 of expenditures for this biennium).

The Statewide Conference Fund is nonappropriated in accordance with OMB policy 211 (\$907 of expenditures for this biennium).

Expenditures for combined or joint purchases with local health units are tracked in the Department of Health's operating fund. The continuing appropriation for these expenditures is authorized by NDCC 23-01-08 (\$6,782 of expenditures for this biennium).

## *Internal Control*

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In our audit for the biennium ended June 30, 2007, we identified the following areas of the North Dakota Department of Health's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer based Vital Records system.
- Controls surrounding the computer based WIC Net System.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of the North Dakota Department of Health in a management letter dated April 7, 2008.

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### Finding 07-1

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#### **FRAUD RISK ASSESSMENT/CONTROL ACTIVITIES**

The North Dakota Department of Health does not have a system in place to identify possible instances of fraud or fraudulent activities in the agency's financial and operational areas.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities including when special circumstances arise, when changing operating environments, and for restructuring. In addition, the North Dakota Department of Health does not have the necessary control activities designed/documented to ensure significant fraud exposures are identified and mitigated.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend the North Dakota Department of Health:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

***North Dakota Department of Health Response:***

*The Department is currently working with OBM to develop a statewide template that will be used to perform a fraud risk assessment at an agency level.*

## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested North Dakota Department of Health's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Included In Our Audit Scope*

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- Proper use of the following legally restricted funds:
  - Abandoned Motor Vehicle Disposal Fund
  - Organ Transplant Support Fund
  - Environmental Quality Restoration Fund
  - Environmental Health Practitioner Licensure Fee Administrative Fund
  - Health Care Trust Fund
  - Community Health Trust Fund
  - Operator's Certification Fund
  - Environmental and Rangeland Protection Fund
  - Domestic Violence and Sexual Assault Prevention Fund
- Compliance with special appropriation laws:
  - \$250,000 from the abandoned motor vehicle disposal fund (2005 North Dakota Session Laws chapter 32, section 4).
  - \$252,808 from the environment and rangeland protection fund including \$50,000 for a North Dakota Stockmen's Association environmental services program grant (2005 North Dakota Session Laws chapter 32, section 5).
  - \$340,000 from the domestic violence prevention fund (2005 North Dakota Session Laws chapter 32, section 6).
  - \$1,000 from the environmental health practitioner licensure fee administrative fund (2005 North Dakota Session Laws chapter 32, section 7).
  - \$21,214 from the wastewater operators certification fund (2005 North Dakota Session Laws chapter 32, section 8).
  - \$6,610,000 from the community health trust fund (2005 North Dakota Session Laws chapter 32, section 9).
  - Obtaining of \$220,000 in new funding for abstinence programs (2005 North Dakota Session Laws chapter 32, section 24).
- Proper completion and reporting of the worksite wellness pilot project to the 60<sup>th</sup> legislative assembly (2005 North Dakota Session Laws chapter 32, section 23).
- Proper implementation and reporting of the basic care survey pilot project to the legislative council during the 2005-06 interim (2005 North Dakota Session Laws chapter 32, section 26).

- Proper handling of any breaches to physician loan repayment contracts (North Dakota Century Code section 43-17.2-06).
- Application of proper statutory rates relating to revenue.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 32).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted certain inconsequential instances of noncompliance that we have reported to management of the North Dakota Department of Health in a management letter dated April 7, 2008.

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## **NONCOMPLIANCE WITH RECORD RETENTION LAWS**

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### Finding 07-1

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The Division of Vital Records of the North Dakota Department of Health only retains credit card records for the previous calendar year. The Division had \$20,747 of credit card refunds during the audit period, \$15,366 of which took place before calendar year 2007. We were unable to verify the validity of two of five credit card refunds tested due to unavailable support documentation.

The general records retention schedule of the Records Management Division of the Information Technology Department states that financial-related records need to be kept for three years after the current fiscal year. The Division misclassified credit card records in their records retention schedule to a category that has a one year retention policy. As a result, the North Dakota Department of Health is not in compliance with the general records retention schedule.

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### Audit Recommendation and Agency Response

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#### **Recommendation:**

We recommend that the North Dakota Department of Health update the records retention policy for the Division of Vital Records to ensure that all financial-related data with audit value is retained for at least three years after the current fiscal year.

#### **North Dakota Department of Health Response:**

*Procedures have been developed to assure that records will be retained for at least three years after the current fiscal year.*

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Finding 07-2

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**NONCOMPLIANCE WITH RETENTION BONUS LAWS**

The North Dakota Department of Health did not file a copy of their retention bonus policy with the North Dakota Human Resource Management Services nor did they report to the North Dakota Human Resource Management Services each retention bonus paid. The North Dakota Department of Health paid retention bonuses to 20 employees for a total of \$70,600 during the 2005-2007 biennium. The North Dakota Department of Health does have a written policy in place in regards to retention bonuses; however, a copy of the policy was not given to the North Dakota Human Resource Management Services.

Section 54-06-31 of the North Dakota Century Code (NDCC) states that agencies may pay retention bonuses only if the agency has filed a copy of their written retention bonus policy with the North Dakota Human Resource Management Services. It also states that the agency needs to report to the North Dakota Human Resource Management Services each bonus provided to an employee under the program. As a result, the North Dakota Department of Health is not in compliance with NDCC.

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Audit Recommendation  
and Agency Response

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**Recommendation:**

We recommend that the North Dakota Department of Health comply with Section 54-06-31 of the North Dakota Century Code by submitting a copy of their written retention bonus policy and reporting all retention bonuses provided employees to the North Dakota Human Resource Management Services.

**North Dakota Department of Health Response:**

*We agree with the above recommendation.*

## *Operations*

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This audit did not identify areas of North Dakota Department of Health's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

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April 7, 2008

Terry Dwelle, MD  
State Health Officer  
North Dakota Department of Health  
600 E. Boulevard Avenue  
Bismarck, ND 58505

Dear Dr. Dwelle:

We have performed an audit of the North Dakota Department of Health for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Health's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

### **CASH**

Informal Recommendation 07-1: We recommend the North Dakota Department of Health ensure they are in compliance with OMB Policy 211 by properly closing out the conference fund (Fund 212) within 60 days after the end of a conference or training session.

Informal Recommendation 07-2: We recommend the North Dakota Department of Health implement controls to ensure that all credit card refunds issued by the Division of Vital Records are properly reviewed and approved.

Informal Recommendation 07-3: We recommend the North Dakota Department of Health's Division of Vital Records implement procedures to strengthen controls surrounding cash sales at the division.

### **ACCOUNTS PAYABLE/EXPENDITURES**

Informal Recommendation 07-4: We recommend that the North Dakota Department of Health have a non-cardholder run the agency-wide purchase card statement and reconcile individual purchase card statements to the agency-wide statement.

### **GENERAL**

Informal Recommendation 07-5: We recommend that the North Dakota Department of Health complete annual evaluations on all personnel in accordance with North Dakota Administrative Code section 4-07-10-04.

Informal Recommendation 07-6: We recommend the North Dakota Department of Health establish policies and procedures for proper NDGOV account management and have the responsibility for annually reviewing security access roles be assigned to an appropriate individual.

Management of North Dakota Department of Health agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Delan Hellman  
Auditor in-charge